County of Los Angeles
CHIEF EXECUTIVE OFFICE
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
http://ceo.lacounty.gov

WILLIAM T FUJIOKA
Chief Executive Officer

Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
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MICHAEL D. ANTONOVICH
Fifth District

December 9, 2008

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

APPROVAL OF MEDICARE PART B PREMIUM REIMBURSEMENT FOR 2009
(ALL SUPERVISORIAL DISTRICTS)
(3-VOTES)

SUBJECT

Recommendation to approve County reimbursement of retiree Medicare Part B premiums for retirees who enroll in a Los Angeles County Employees Retirement Association (LACERA) administered Medicare Risk Health Maintenance Organization (HMO) or Medicare Supplement Plan in 2009.

IT IS RECOMMENDED THAT YOUR BOARD:

1. Renew for the 2009 calendar year, County reimbursement of retiree Medicare Part B premiums for retirees who enroll in LACERA administered Medicare Risk Health Maintenance Organization (HMO) or Medicare Supplement Plan with the understanding that such reimbursement will continue to cover the Part B premium effective January 1, 2009. Beginning January 1, 2007, Medicare instituted a means-test that imposed additional Part B premiums on higher income individuals. This recommendation does not intend that the County reimburse any additional costs for persons affected by the new means-test.

2. Instruct the Chief Executive Officer to report back to your Board prior to January 1, 2010 with recommendations regarding Part B reimbursement policy for the 2010 calendar year.

3. Reaffirm your Board's right to change or terminate the Medicare Part B premium reimbursement program at any time if it ceases to be cost effective.

PURPOSE/JUSTIFICATION OF THE RECOMMENDED ACTION

Since 1992, the County has sponsored retiree health insurance plans designed to encourage retirees to fully participate in the Federal Medicare program. This has included reimbursing retirees for the cost of participating in Medicare Part B in those instances where the retiree has enrolled in one of the Medicare Risk HMOs or the Medicare Supplement Plan administered by LACERA. Medicare Part B premiums will not increase on January 1, 2009 and will remain at $96.40 per month per covered individual.

The purpose of the recommended action is to authorize the continuance of County reimbursement of the retiree Medicare Part B premiums for retirees that enroll in a Medicare Risk HMO or the Medicare Supplement Plan. The premiums include any late enrollment penalties paid by retirees who enrolled prior to May 1, 1993 when the reimbursement plan was first introduced. This recommendation will affect over 27,600 retirees and eligible dependents. We are also recommending that the Chief Executive Officer be instructed to report back to your Board prior to January 1, 2010 with additional recommendations regarding the Part B reimbursement program for the 2010 calendar year.

The decision to pick-up inflationary increases in Medicare Part B premiums is essentially an annual determination. Medicare Part B premiums are routinely adjusted on January 1 of each year and it is important that the cost/benefit of this program be re-evaluated in light of these adjustments, as well as any intervening adjustments in the cost of LACERA health insurance. In 2009, there will be no increase in the Medicare Part B premium.

Background

The County pays a subsidy toward the cost of retiree health insurance based on each retiree's length of active County service. The subsidy equals four (4) percent of the cost of the coverage chosen by the retiree for each year of service, if the retiree has a minimum of ten years of service. No subsidy is paid with less than ten years of service. For example, a retiree with the minimum ten years of service receives a subsidy of 40 percent of premium costs and a retiree with 25 years of service receives a subsidy of 100 percent of premium costs. In no event, however, may the subsidy exceed the subsidy payable for the LACERA indemnity health plans currently known as "Blue Cross I and II." These plans have identical premiums which set a cap on the subsidy. Within these limitations, the subsidy amount covers the cost of coverage for the retiree and any eligible dependents.

Medicare includes two key elements known as "Part A" and "Part B." Part A generally covers hospitalization costs and Part B generally covers physician services and other ancillary items such as laboratory testing and durable medical equipment. Part A coverage may be earned by working the requisite number of quarters in Medicare covered employment and Part B may be purchased by anyone eligible for Part A.

In 2008, the charge for Part B was $96.40 per month for a person enrolling at age 65. For 2009, there will be no increase in the Part B premium and it will remain at $96.40 per month for beneficiaries below a designated income level.

Beginning in 2007, individuals with higher incomes began paying higher premiums, on a graduated scale depending on their income. Under this means-testing arrangement, the higher premiums are being phased in over three years – so the 2009 amounts reflect 100 percent of the total increase. We are recommending that the County reimburse only the basic Part B reimbursement without any increases attributable to a retiree's income level.

The menu of County sponsored LACERA administered retiree health plans includes both Medicare Risk HMOs and a Medicare Supplement Plan. A Medicare Risk HMO is an HMO in which participants have assigned over all rights to Medicare Parts A and B to the HMO. The participant effectively agrees to receive all of his or her medical care from the HMO and to waive any right to use Medicare benefits outside the HMO. In exchange, Medicare agrees to pay the HMO a monthly "capitation" fee on behalf of the participant. That fee defrays much of the cost of the HMO coverage. The reduction in cost is passed on to the retirees and the County in the form of lower premiums and subsidy costs.

A Medicare Supplement Plan is an indemnity plan that complements Medicare Part A and Part B benefits. Medicare becomes the primary payer, meaning Medicare pays first on each claim. A Medicare Supplement Plan essentially picks up where Medicare leaves off within the limitations set forth in the plan. Like the Medicare Risk HMO concept, the Medicare Supplement concept reduces County and retiree costs by the value of the Medicare Part A and B benefits.

LACERA currently administers three Medicare Risk HMOs and one Medicare Supplement Plan. The HMOs are known as "Kaiser Senior Advantage", "SCAN", and PacifiCare/Secure Horizons". The Medicare Supplement Plan is known as "Blue Cross III."

Medicare Part B Reimbursement

In 1992, your Board approved the Medicare Part B Reimbursement Program as a means of encouraging retirees to enroll in a Medicare Risk HMO, or the Medicare Supplement Plan. From 1992 through 2008, the County has generally paid the full cost of Part B for any retiree who has enrolled in both Parts A and B eligible plans. The justification advanced to the Board in 1992 and we believe is still valid today, holds that the cost of the Part B coverage is more than offset by the reduction in subsidy costs for the lower cost Medicare Risk HMO and Medicare Supplement coverage.

In the original 1992 Board action, the Board limited its liability to the then published Part B premium schedule through 1995. The Board's action also provided that after June 30, 1996 the Part B Reimbursement Program is subject to change or cancellation at the discretion of the Board and that it should be continued only "if cost savings are realized." To date, all adjustments in the basic Part B premiums (and adjustments in late penalties for original enrollees in the program) have been fully reimbursed by the County. Clearly, the original stated purpose of this program is to spend money as a means of saving more money. Consequently, it is appropriate to annually re-evaluate whether continuing to pick-up the full cost of the Part B coverage is cost justified.

Recommended Pick-Up of January 1, 2009 Part B Premium

Picking up the 2009 Part B premium would not change the current level of Part B reimbursement expenditures since there is no increase in the 2009 rate. The projected annual expenditures for 2009 are estimated at $32 million. The key question at this point is whether spending this amount will produce more than this amount in savings. That is, is spending $32 million necessary to retain the current level of participation in the Medicare Risk HMOs and Blue Cross III, and thereby avoid more than $32 million in higher subsidy costs that could be caused by a possible reverse migration out of these plans?

Eliminating the Part B reimbursement may cause a majority of the participants in the Part B Reimbursement Program to immediately abandon their current coverage in favor of higher cost LACERA coverage. Of the 21,400 retirees currently in the Program, approximately 12,000 (56 percent) are receiving a 100 percent County subsidy because they have 25 or more years of County service. These individuals could enroll in any LACERA health plan and have the full premium paid by the County up to the aforementioned maximum subsidy limit established by the Blue Cross I and II Plans.

Although there is no way to be certain what the costs of the retiree health insurance program would be in the absence of this incentive, Buck Consultants, an independent actuarial consulting firm believes the likely impact on either eliminating the Part B

reimbursement program or freezing the level of reimbursement at the 2008 levels would be an increase in overall County costs ranging from approximately $21 million to $39 million per annum. This would be in addition to the projected annual expenditures of $32 million estimated for 2009. A copy of Buck Consultant's analysis is attached.

LACERA independently employed the firm of Mercer to review this issue. Mercer concurs that overall County costs for retiree health care would be dramatically higher in the absence of the Part B reimbursement program. A copy of Mercer's analysis is also attached.

Attachments I through VI provide additional information on the difference in current retiree costs and benefit coverage between the Kaiser Senior Advantage and Blue Cross III plans, and the alternative non-Medicare related Kaiser Excess I, and Blue Cross I and II Plans. The populations in Kaiser Senior Advantage and Blue Cross III represent approximately 91 percent of the total Part B reimbursement program participants.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The recommended action supports the County's Strategic Plan Goal of fiscal responsibility.

FISCAL IMPACT

2009 Medicare Part B premiums will remain at the 2008 level. Approving continuing the Medicare Part B reimbursement will not increase County costs due to Medicare Part B premiums.

FACTS AND PROVISIONS

The recommended continuance of the Part B reimbursement would take effect on January 1, 2009 and be initially reflected in LACERA retiree warrants issued on December 30, 2008.

The Chief Executive Officer will report back prior to January 1, 2010 with additional recommendations relating to Part B reimbursement policy for the 2010 calendar year.

Respectfully submitted,

WILLIAM T FUJIOKA
Chief Executive Officer

WTF:SRH:DL
WGL:WW:df

Attachments (8)

c: LACERA
Auditor-Controller
County Counsel

ATTACHMENT I

KAISER MEDICARE AND NON-MEDICARE HEALTH PLAN RATE COMPARISON
(BASED ON JULY 1, 2008 TO JUNE 30, 2009 RATES)
RETIREE ONLY

		MEDICARE RISK HMO					HMO				
		KAISER SENIOR ADVANTAGE (Assigned both Parts A & B)					Kaiser Excess I (Assigned only Part A)				
	MAXIMUM COUNTY SUBSIDY FOR ALL PLANS	2008 MEDICARE PART B SUBSIDY	ACTUAL COUNTY SUBSIDY	TOTAL COUNTY COST	RETIREE COST	TOTAL INSURANCE PREMIUM	MEDICARE PART B SUBSIDY	ACTUAL COUNTY SUBSIDY	TOTAL COUNTY COST	RETIREE COST	TOTAL INSURANCE PREMIUM
10 YOS (40%)	$327.33	$96.40	$85.37	$181.77	$128.05	$213.42	$0.00	$310.70	$310.70	$466.05	$776.75
15 YOS (60%)	$490.99	$96.40	$128.05	$224.45	$85.37	$213.42	$0.00	$466.05	$466.05	$310.70	$776.75
20 YOS (80%)	$654.66	$96.40	$170.74	$267.14	$42.68	$213.42	$0.00	$621.40	$621.40	$155.35	$776.75
25 YOS (100%)	$818.32	$96.40	$213.42	$309.82	$0.00	$213.42	$0.00	$776.75	$776.75	$0.00	$776.75

ATTACHMENT II

KAISER TWO-PARTY MEDICARE HEALTH PLAN RATE COMPARISON
(BASED ON JULY 1, 2008 TO JUNE 30, 2009 RATES)
RETIREE AND SPOUSE

		KAISER SENIOR ADVANTAGE (Retiree & Spouse Assigned both Parts A & B)					Kaiser Excess I (Retiree & Spouse Assigned both Part A)				
	MAXIMUM COUNTY SUBSIDY FOR ALL PLANS	2008 MEDICARE PART B SUBSIDY	ACTUAL COUNTY SUBSIDY	TOTAL COUNTY COST	RETIREE COST	TOTAL INSURANCE PREMIUM	MEDICARE PART B SUBSIDY	ACTUAL COUNTY SUBSIDY	TOTAL COUNTY COST	RETIREE COST	TOTAL INSURANCE PREMIUM
10 YOS (40%)	$590.65	$192.80	$169.54	$362.34	$254.30	$423.84	$0.00	$590.65	$590.65	$959.85	$1,550.50
15 YOS (60%)	$885.98	$192.80	$254.30	$447.10	$169.54	$423.84	$0.00	$885.98	$885.98	$664.52	$1,550.50
20 YOS (80%)	$1,181.30	$192.80	$339.07	$531.87	$84.77	$423.84	$0.00	$1,181.30	$1,181.30	$369.20	$1,550.50
25 YOS (100%)	$1,476.63	$192.80	$423.84	$616.64	$0.00	$423.84	$0.00	$1,476.63	$1,476.63	$73.87	$1,550.50

ATTACHMENT III

BLUE CROSS MEDICARE AND NON-MEDICARE HEALTH PLAN RATE COMPARISON
(BASED ON JULY 1, 2008 TO JUNE 30, 2009 RATES)
RETIREE ONLY

		MEDICARE SUPPLEMENT					INDEMNITY PLAN							
		BLUE CROSS III (Assigned both Parts A & B)					BLUE CROSS I (MEDICARE NOT REQUIRED)				BLUE CROSS II (MEDICARE NOT REQUIRED)			
	MAXIMUM COUNTY SUBSIDY FOR ALL PLANS	2008 MEDICARE PART B SUBSIDY	ACTUAL COUNTY SUBSIDY	TOTAL COUNTY COST	RETIREE COST	TOTAL INSURANCE PREMIUM	ACTUAL COUNTY SUBSIDY	TOTAL COUNTY COST	RETIREE COST	TOTAL INSURANCE PREMIUM	ACTUAL COUNTY SUBSIDY	TOTAL COUNTY COST	RETIREE COST	TOTAL INSURANCE PREMIUM
10 YOS (40%)	$327.33	$96.40	$119.19	$215.59	$178.79	$297.98	$327.33	$327.33	$490.99	$818.32	$327.33	$327.33	$490.99	$818.32
15 YOS (60%)	$490.99	$96.40	$178.79	$275.19	$119.19	$297.98	$490.99	$490.99	$327.33	$818.32	$490.99	$490.99	$327.33	$818.32
20 YOS (80%)	$654.66	$96.40	$238.38	$334.78	$59.60	$297.98	$654.66	$654.66	$163.66	$818.32	$654.66	$654.66	$163.66	$818.32
25 YOS (100%)	$818.32	$96.40	$297.98	$394.38	$0.00	$297.98	$818.32	$818.32	$0.00	$818.32	$818.32	$818.32	$0.00	$818.32

ATTACHMENT IV

BLUE CROSS TWO-PARTY MEDICARE HEALTH PLAN RATE COMPARISON
(BASED ON JULY 1, 2008 TO JUNE 30, 2009 RATES)
RETIREE AND SPOUSE

		BLUE CROSS III (Retiree & Spouse Assigned both Parts A & B)					BLUE CROSS I OR II (MEDICARE NOT REQUIRED)				
	MAXIMUM COUNTY SUBSIDY FOR ALL PLANS	2008 MEDICARE PART B SUBSIDY	ACTUAL COUNTY SUBSIDY	TOTAL COUNTY COST	RETIREE COST	TOTAL INSURANCE PREMIUM	MEDICARE PART B SUBSIDY	ACTUAL COUNTY SUBSIDY	TOTAL COUNTY COST	RETIREE COST	TOTAL INSURANCE PREMIUM
10 YOS (40%)	$590.65	$192.80	$237.66	$430.46	$356.48	$594.14	$0.00	$590.65	$590.65	$885.98	$1,476.63
15 YOS (60%)	$885.98	$192.80	$356.48	$549.28	$237.66	$594.14	$0.00	$885.98	$885.98	$590.65	$1,476.63
20 YOS (80%)	$1,181.30	$192.80	$475.31	$668.11	$118.83	$594.14	$0.00	$1,181.30	$1,181.30	$295.33	$1,476.63
25 YOS (100%)	$1,476.63	$192.80	$594.14	$786.94	$0.00	$594.14	$0.00	$1,476.63	$1,476.63	$0.00	$1,476.63

ATTACHMENT V

KAISER MEDICARE AND NON-MEDICARE HEALTH PLAN BENEFITS COMPARISON

	MEDICARE RISK HMO	
	Kaiser Senior Advantage **(Assigned both Parts A & B)**	Kaiser Excess I **(Assigned only Part A)**
Expenses		
Calendar Year Deductibles	None	
Annual Maximum Out-of-Pocket Expenses	Maximum payments of: $1,500 – Individual $3,000 – Family	
Lifetime Maximum Benefits	Unlimited	
Hospital Benefits		
Room and Board	No charge	
Surgical Services	No charge	
Hospital Services and Supplies	No charge	
Emergency Benefits		
Inpatient	No charge	
Outpatient	$5 copay; waived if admitted	
Ambulance	No charge for emergency	
Outpatient Benefits		
Doctor's Office Visit	$5 copay	
Preadmission x-ray and lab tests	No charge	
Routine checkups	$5 copay	
Immunizations	No charge	
Outpatient Surgical services	$5 copay per procedure	
Physical Therapy	$5 copay	
Speech Therapy	$5 copay	
Prescription Drugs	$7 copay for up to 100-day supply, covers dental prescriptions	
Vision/Hearing Care Benefits		
Eye Exams	$5 copay	
Lenses	$150 allowance every 24 months.	**Not covered**
Frames	$150 allowance every 24 months.	**Not covered**
Hearing Exams	$5 copay	
Hearing Aids	Not covered	
Durable Medical Equipment	**Covered**	**Not covered**

ATTACHMENT VI

BLUE CROSS MEDICARE AND NON-MEDICARE HEALTH PLAN BENEFITS COMPARISON

	MEDICARE SUPPLEMENT	INDEMNITY PLAN	
	BLUE CROSS III **(Assigned both Parts A & B)**	BLUE CROSS I **(Medicare not required)**	BLUE CROSS II **(Medicare not required)**
Expenses			
Calendar Year Deductibles	None	$100 individual, $100 family	$500 individual; $1,500 family
Annual Maximum Out-of-Pocket Expenses	None	N/A	$2,500 including deductible
Lifetime Maximum Benefits	Unlimited	$1,000,000	$1,000,000
Hospital Benefits			
Room and Board	Plan pays all Medicare inpatient deductibles for approved Medicare days	$75/day $150/day special care unit	90% PPO hospital; 80% non-PPO
Surgical Services	Plan pays all Medicare inpatient deductibles for approved Medicare days	According to schedule + 80% of balance	80%
Hospital Services and Supplies	Plan pays all Medicare inpatient deductibles for approved Medicare days	100%	90% PPO hospital; 80% non-PPO hospital
Emergency Benefits			
Inpatient	Plan pays all Medicare inpatient deductibles for approved Medicare days	$75/day $150/day special care unit	90% PPO hospital; 80% non-PPO hospital
Outpatient	20% of Medicare approved charges	100% at a hospital only	80%
Ambulance	20% of Medicare approved charges	80% for transportation to first hospital where care is given	80% for transportation to first hospital where care is given
Durable Medical Equipment	**Covered**	**Not covered**	

ATTACHMENT VI (Continued)

BLUE CROSS MEDICARE AND NON-MEDICARE HEALTH PLAN BENEFITS COMPARISON

	MEDICARE SUPPLEMENT	INDEMNITY PLAN	
	BLUE CROSS III **(Assigned both Parts A & B)**	BLUE CROSS I **(Medicare not required)**	BLUE CROSS II **(Medicare not required)**
Outpatient Benefits			
Doctor's Office Visit	20% of Medicare approved charges	80%	
Preadmission x-ray and lab tests	20% of Medicare approved charges	100%	
Routine checkups	Not covered except for dependent children under age 17	(Adult) $25 copay; covered in-network (Children under 17) $25 copay; maximum of $250; covered in-network	(Adult) $25 copay; covered in-network (Children under 17) $25 copay; covered in-network
Immunizations	Not covered except for dependent children under age 17	Not covered except for dependent children under age 17	
Outpatient Surgical services	20% of Medicare approved charges	100%	
Physical Therapy	20% of Medicare approved charges	80% in accordance with requirements	
Speech Therapy	20% of Medicare approved charges	80% in accordance with requirements	
Prescription Drugs	80% in-network; 60% out-of-Network: $10 generic/$30 brand/$50 non-preferred brand.	80% in-network, 60% out-of-network; $10 generic/$30 brand/$50 non-preferred brand.	
Vision/Hearing Care Benefits			
Eye Exams	Not covered	Covered after accident only	
Lenses	Not covered unless 1st lens after eye surgery	Covered after accident and after eye surgery	
Frames	Not covered unless after eye surgery	Covered after accident or after eye surgery only	
Hearing Exams	One per year; 80%	Covered after accident	
Hearing Aids	50% up to $300 lifetime maximum	Covered after accident	

buckconsultants
an ACS company A C S

October 30, 2008

Mr. William A. Lynes
County of Los Angeles
Chief Administrative Office
526 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Re: Expected Impact of Modifying the Part B Reimbursement for Retirees

Dear Bill:

This letter presents Buck Consultants LLC's (Buck) analysis of the expected cost impact of modifying the current County practice of reimbursing retirees and their dependents for the Medicare Part B premium. This encourages retirees to enroll in the Blue Cross III Medicare Supplement Plan or in one of the Medicare Advantage (or sometime called Medicare Risk) plans offered by the HMO plans.

Based on our analysis, we believe that it is in the County's interest to continue the current program to reimburse retirees for their basic Part B premium but not to cover the additional means tested Part B premium that became effective January 2007. This means that the County would not pay for the additional means tested amount that Medicare will charge to high income participants. Deciding not to pay the Part B premium would cost the County between $21.0 and $38.9 million for 2009.

Under our analysis, we developed the expected cost impact to the County under two scenarios. In the first, the County elects to freeze the Medicare Part B reimbursement at the 2008 premium amount of $96.40 per month. In the second, the County elects to suspend the reimbursement of the Part B premium in total. In both scenarios, we have assumed that the County will not cover the additional means tested Part B premium that became effective January 2007.

1615 Murray Canyon Road, Suite 602 • San Diego, CA 92108-4320
619.297.4930 • 619.297.5220 (fax)

In our analysis, we have assumed that LACERA will still elect to offer the Blue Cross Plan III and the various Medicare Advantage plans regardless of whether or not the County elects to continue to pay the Part B premiums. This decision is to the financial advantage of the retirees, particularly to those with less than 25 years of service at retirement.

For example, a retiree who is Medicare Eligible and has 15 years of service at retirement pays a monthly premium of $119.19 under the Blue Cross Plan III, but would pay $327.33 under the Blue Cross Plan II, or an increase of $208.14 per month. Even if this individual had to pay the 2009 Part B premium of $96.40 he would still pay $111.74 less per month by remaining in the Blue Cross Plan III, or a savings of $1,340.88 per year as compared to dropping Part B coverage and electing the Blue Cross Plan II.

Of the approximately 21,000 participants in a Medicare Advantage or the Blue Cross III plan, 9,400 have less than 25 years of service and as such are paying some of the cost of the medical plan they elect. Keeping these plans in place for these members makes financial sense for the County and the retired members.

In developing our analysis, we focused strictly on these 21,000 participants. In the first scenario, we assumed that the County freezes the Medicare Part B reimbursement at the 2008 premium amount of $94.60 per month. In addition, for those individual who are paying a penalty for late enrollment, the penalty reimbursement remains frozen at the amount of penalty reimbursed in 2008. Based on the current average monthly reimbursement of $125 per retired participant, the expected reimbursement for 2009 would be $125 if the County continued its current practice. Freezing the contributions at the 2008 levels means that on average retirees would pay $0 per month in Part B premiums.

In determining whether a retiree would elect to pay the additional Part B premium and remain in the current Blue Cross III or Medicare Advantage plan, we compared the difference in premium paid by the retiree for their current plan plus the additional Part B premium to the medical premium payment for a non-Medicare Plan. For this analysis, individuals in the Blue Cross III and SCAN HMO plans were compared to the Blue Cross II plan and those in CIGNA, Kaiser, and PacifiCare were compared to the available non-Medicare option for the particular HMO.

We then developed the cost impact of three election alternatives:

- Maximum cost impact – if the retiree cost of the current medical plan plus the additional Part B premium is less than the cost of the applicable non-Medicare plan, the retiree remains in their current plan. If the retiree cost of the current medical plan plus the additional Part B premium is greater than or equal to the cost of the applicable non-Medicare plan, the retiree moves to the non-Medicare plan.

- Minimum cost impact – the additional $0 per month average Part B payment does not cause any movement in plans; retirees remain in their current plans.

- Expected cost impact – this represents our expected outcome. For those where the retiree cost of the current medical plan plus the additional Part B premium is less than the cost of the applicable non-Medicare plan, the retiree remains in their current plan. If the retiree cost of the current medical plan plus the additional Part B premium is greater than or equal to the cost of the applicable non-Medicare plan, then 50% of the retirees move to the non-Medicare plan and the other 50% remain in their current plans.

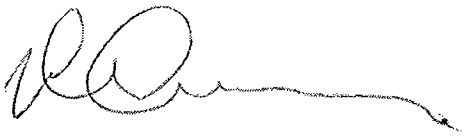
In the first scenario, the cost impact to the County ranges from an additional $78 million under the maximum cost impact scenario, a savings of $0 under the minimal cost impact and a cost of $39 million under the expected cost scenario. In the second scenario, we assumed that the County elects to suspend the reimbursement of the Part B premium in total. This means that on average, the retirees would have to pay an additional $125 per month in Part B premiums and penalties to remain in their current plans.

- In determining whether a retiree would elect to pay the additional Part B premium and remain in the current Blue Cross III or Medicare Advantage plan, we compared the difference in premium paid by the retiree for their current plan plus the additional Part B premium to the medical premium payment for a non-Medicare Plan. Individuals in the Blue Cross III and SCAN HMO plans were compared to the Blue Cross II plan and those in CIGNA, Kaiser, and PacifiCare were compared to the available non-Medicare option for the particular HMO. We then developed the cost impact of the same three election alternatives as in the first scenario.

In the second scenario, the cost impact to the County ranges from an additional $67 million under the maximum cost impact scenario, a savings of $25 million under the minimal cost impact and a cost of $21 million under the expected cost scenario. The cost is less under this scenario because the County is no longer paying the Part B premium amounts. The attached exhibit summarizes the results of our analysis for both scenarios.

After your review, if you have any questions or comments, please give me a call and we can discuss.

Sincerely,



Michael W. Schionning, F.S.A., M.A.A.A.
Principal & Consulting Actuary

Exhibit I

County of Los Angeles
Cost Impact of Modifying the Part B Reimbursement Policy
Medicare Eligible Participants Only
Calendar Year 2009

		Scenario 1 - Freeze at 2008 Levels			*Scenario 2 - No Part B Reimbursement*		
	Current	Maximum	Minimum	Expected	Maximum	Minimum	Expected
Blue Cross	$35,372,194	$62,977,271	$35,372,194	$49,174,732	$58,988,568	$25,336,954	$42,162,761
CIGNA	$272,715	$272,715	$272,715	$272,715	$236,854	$236,854	$236,854
Kaiser	$37,086,893	$82,419,185	$37,086,893	$59,753,039	$76,588,009	$24,404,895	$50,496,452
SCAN	$940,543	$1,818,450	$940,543	$1,379,496	$1,587,375	$558,799	$1,073,087
PacifiCare	$5,492,689	$9,390,186	$5,492,689	$7,441,438	$8,555,163	$3,824,583	$6,189,873
Total	$79,165,033	$156,877,807	$79,165,033	$118,021,420	$145,955,969	$54,362,084	$100,159,027
Cost/(Savings)		$77,712,774	$0	$38,856,387	$66,790,936	($24,802,949)	$20,993,994

E. Clayton Levister III
Principal

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MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

October 8, 2008

Mr. Robert R. Hill
Assistant Executive Officer
LACERA
300 N. Lake Ave Suite 820
Pasadena, CA 91101

Subject: Medicare Risk Savings Projections

Dear Rob:

Attached are the Medicare Risk savings projections to evaluate the ongoing cost-effectiveness of the County offering Medicare Risk plans and subsidizing Medicare Part B premiums for LACERA retirees and dependents enrolling in those plans. Because LACERA has a number of health plan options, we have included four "migration scenarios" for your review. Each has a different set of assumptions concerning where the retirees might enroll if the County did not offer Medicare Risk plans and subsidize Medicare Part B premiums for enrollees who participate in those plans. Under all scenarios, it is in the County's financial interest to continue offering Medicare Risk plans and subsidizing Part B premiums for enrollees in those plans.

Background about the Part B Premium

Medicare Part B Premium

The Medicare Part B premium for the first income level, as of January 1, 2008, is $96.40. For January 1, 2009, there is no increase to the Part B premium at this income level. The County covers the Part B premium for retiree and dependent participants in the Medicare Risk HMOs and Plan III. There are approximately 21,000 retirees in such plans. According to the Medicare Part B Reimbursement and Penalty Report, the average amount paid for retirees, dependents and penalties is approximately $124.50 per retiree.

Income-Related Medicare Part B Premium

As part of the Medicare Modernization Act, effective January 2007, Medicare Part B premiums will be income tested. Currently, the Medicare Part B premium is set at 50% of the monthly actuarial rate (MAR). The MAR represents 50% of the cost of Part B benefits. Therefore, the standard Medicare Part B premiums cover about 25% of the cost for Part B expenditures. Effective January 2007, individuals over a certain income level will pay more

than the 25% target premium. The additional amounts vary by income ranges and marital status, and will be phased in over the next five years. For a more detailed description please refer to the attached Income-Related Part B document. Our model assumes that the County will not reimburse the means-tested amounts of the Part B premiums. It also assumes that the County will pay only for the standard Medicare Part B premium and the late penalties for those who enrolled when the reimbursement plan was first introduced.

Projection Methodology

In each projection, the savings is determined by comparing LACERA's current total plan cost (medical, dental, and Part B premium) with the projected total cost if there were no Medicare Risk plan offerings. The projected costs are based upon migration of Risk participants into non-Risk plans and the removal of the Part B premium. The County's contributions are based upon years of service. For the 2008/2009 policy period, we estimate them to be 90.54% of the total cost. This factor is applied to the premium to split the County and retiree portions.

Projection A – Migration Assumptions

This projection assumes that all Medicare HMO Risk participants move from their current HMO Risk plan into the corresponding HMO's non-Risk plan; that the Kaiser Senior Advantage participants migrate to the Kaiser Excess plan; and that the Scan and Plan III participants migrate to Plan II. In addition, Projection A assumes that the County will stop paying the Part B premium for all members. Under this scenario LACERA will have saved approximately $137.61 million in total medical cost.

Projection B – Migration Assumptions

This projection assumes that all Medicare HMO Risk participants migrate from their current HMO Risk plans to Plan II; that Plan III enrollment remains unchanged; and that the County will continue to pay the Part B premium for Plan III participants. Under this scenario LACERA will have saved approximately $90.08 million in total medical cost.

Projection C – Migration Assumptions

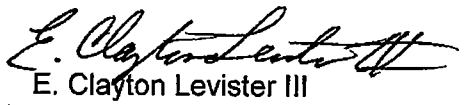
This projection assumes that the Medicare HMO Risk participant migration is split 50/50 between Plan II and Plan III; that Plan III enrollment remains unchanged; and that the County will continue to pay the Part B premium for Plan III participants. Under this scenario LACERA will have saved approximately $52.43 million in total medical cost.

Projection D – Migration Assumptions

This projection assumes that the Medicare HMO Risk and Plan III participants migrate to Plan II, and that the County will stop paying the Part B premium for all members. Under this scenario LACERA will have saved approximately $142.62 million in total medical cost.

Rob, please call me at 213 346-2539 if you have any questions or would like to discuss any of these projections.

Sincerely,



E. Clayton Levister III
Principal

Copy:
Lita Payne - LACERA
Laurie Silva - Mercer

Attachments:
Migration assumptions
Grist: CMS Releases 2009 Medicare Premiums, Coinsurance and Deductibles

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GRIST Report: CMS releases 2009 Medicare premiums, coinsurance, and deductibles

By Barbara McGeoch and Kelly Traw of the Washington Resource Group
Sept. 19, 2008

In This Article
Summary | Medicare beneficiary cost-sharing requirements | Part A – Hospital insurance | Part B – Medical insurance

Summary

Today the Centers for Medicare and Medicaid Services announced the 2009 beneficiary premiums, deductibles and other cost-sharing amounts for Parts A and B of Medicare. The 2009 amounts include the income-related Part B monthly premiums for beneficiaries in higher-income brackets. The Part B monthly premium for others below those income thresholds remains at $96.40, the same as in 2008.

Medicare beneficiary cost-sharing requirements

Medicare beneficiaries are subject to various cost-sharing requirements, including monthly premiums, daily coinsurance amounts for certain benefits and deductibles. These amounts are adjusted annually based on Medicare rules. The Centers for Medicare and Medicaid Services Sept. 19 (CMS) announced the 2009 amounts for Medicare Parts A and B. (For prior years' amounts, see GRIST #20070201, Oct. 19, 2007.)

Part A – Hospital insurance

Medicare Part A beneficiaries are subject to a deductible for inpatient hospital stays. If hospitalized more than 60 days, beneficiaries are also responsible for daily coinsurance amounts, which vary depending on the duration of the stay. Beneficiaries who receive services in a skilled nursing facility are subject to separate daily coinsurance amounts.

Although most individuals qualify for premium-free Part A coverage, those who haven't had enough quarters of Medicare covered employment must pay monthly Part A premiums. The amount of the premium depends on the number of a beneficiary's covered quarters and whether the beneficiary is enrolled in Medicare due to age (such as seniors age 65 and older) or disability. The table below shows the Part A deductibles, coinsurance amounts and premiums for 2008 and 2009.

Part A Hospital Insurance

	2009	2008
Hospital inpatient deductible	$1,068	$1,024
Hospital daily coinsurance		
▪ Days 61-90	267	256
▪ Lifetime reserve days	534	512
Skilled nursing facility daily coinsurance	133.50	128
Monthly premium		
▪ Seniors with fewer than 30 covered quarters and certain people with disabilities under 65	443	423
▪ Seniors with 30-39 covered quarters and people with disabilities who have 30 or more covered quarters	244	233

Part B – Medical insurance

Medicare beneficiaries with Part B coverage pay an annual deductible and a monthly premium. Beginning in 2007, individuals with higher incomes paid higher premiums – on a graduated scale – depending on their annual income. (For background information on income-related Part B premiums, see GRIST #20060055, March 7, 2006.) 2009 is the final year for phasing in income-related premiums, so the 2009 amounts reflect the full income-related increase. The table below lists the Part B deductible and monthly premiums for 2008 and 2009.

Part B Medical Insurance

	2009		2008	
Annual deductible	$135.00		$135.00	
Monthly premium if income is:	**Annual income**	**Premium**	**Annual income**	**Premium**
from $ through $	0 – 85,000*	96.40	0 – 82,000*	96.40
over $ through $	85,000 – 107,000	134.90	82,000 – 102,000	122.20
	107,000 – 160,000	192.70	102,000 – 153,000	160.90
	160,000 – 213,000	250.50	153,000 – 205,000	199.70
over $	213,000	308.30	205,000	238.40

*income brackets for most unmarried beneficiaries filing individual returns

GRIST is prepared by Mercer's Washington Resource Group. For more information, contact the InfoServices team at +1 202 263 3950.

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Los Angeles County Employees Retirement Association
Medicare Risk - Medicare Supplemental - Prudent Buyer
Premium Projections as of July 1, 2008
All Carriers Combined

	July 1, 2008 through June 30, 2009			
	Migration A	**Migration B**	**Migration C**	**Migration D**
Current Plan Cost (w/Part B Subsidy)				
County Share	$354,772,672	$354,772,672	$354,772,672	$354,772,672
Member Share	$37,077,076	$37,077,076	$37,077,076	$37,077,076
Total	$391,849,748	$391,849,748	$391,849,748	$391,849,748
Assumed Plan Cost (w/Migration and Benefit Options)				
County Share	$479,359,067	$436,333,767	$402,245,131	$483,900,051
Member Share	$50,097,524	$45,600,976	$42,038,393	$50,572,099
Total	$529,456,591	$481,934,743	$444,283,524	$534,472,150
Annual Cost / (Savings)				
County Share	-$124,586,395	-$81,561,095	-$47,472,459	-$129,127,379
Member Share	-$13,020,448	-$8,523,900	-$4,961,318	-$13,495,024
Total	-$137,606,843	-$90,084,996	-$52,433,776	-$142,622,403
Percentage Difference				
County Share	-25.99%	-18.69%	-11.80%	-26.68%
Member Share	-25.99%	-18.69%	-11.80%	-26.68%
Total	-25.99%	-18.69%	-11.80%	-26.68%

Notes:

(1) Migration A:
PacifiCare and CIGNA Risk Members move to the PacifiCare and CIGNA non-Risk HMOs
Kaiser Risk Members move to the Kaiser Excess plan
Plan III and Scan participants move to Plan II

(2) Migration B:
PacifiCare, CIGNA, Kaiser, and Scan members move to Plan II
Plan III members stay in Plan III
County continues to pay Part B premium for Plan III participants

(3) Migration C:
PacifiCare, CIGNA, Kaiser, and Scan members move to Plan II and Plan III
Plan III members stay in Plan III
County continues to pay Part B premium for Plan III participants

(4) Migration D:
PacifiCare, CIGNA, Kaiser, Scan and Plan III members move to Plan II
County stops paying Part B premium for all members